



# NATURAL GAS UPDATE

December 2004

## Natural Gas Prices (\$/MMBtu)

Average Price	November 2004	October 2004	November 2003
PG&E, Malin	5.96	5.49	4.30
PG&E, SoCal Border	6.11	5.53	4.39
SoCalGas Average	6.16	5.59	4.38
Henry Hub, Louisiana	6.15	6.35	4.42

Source: Natural Gas Intelligence

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This document was prepared for the California Natural Gas Working Group. The California Natural Gas Working Group is a consortium of California State Government Agencies including:

California Air Resources Board  
California Energy Commission  
California Public Utilities Commission  
California State Lands Commission  
Department of Conservation, Division of Oil, Gas, & Geothermal Resources  
Department of General Services  
Department of Water Resources

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## Natural Gas Prices

Following the run up in natural gas spot market and futures prices during October 2004, natural gas prices dropped considerably during a fairly uneventful first three weeks of November, with spot prices shedding about \$2 per MMBtu in the process. This trend changed during the last week of November when a cold wave hit the Western United States. An untimely

outage of Unit 2 at the San Onofre Nuclear Generating Station (SONGS) on November 22, combined with the planned maintenance outage of SONGS Unit 3 and cold weather in California, caused natural gas demand in the San Diego area to rise unexpectedly. The spike in demand briefly placed some customers in the SDG&E service territory at risk of natural gas curtailments because demand exceeded the capacity to deliver gas to the SDG&E area. There was also a risk of electricity system

(Please see "Natural Gas Prices" on page 2)

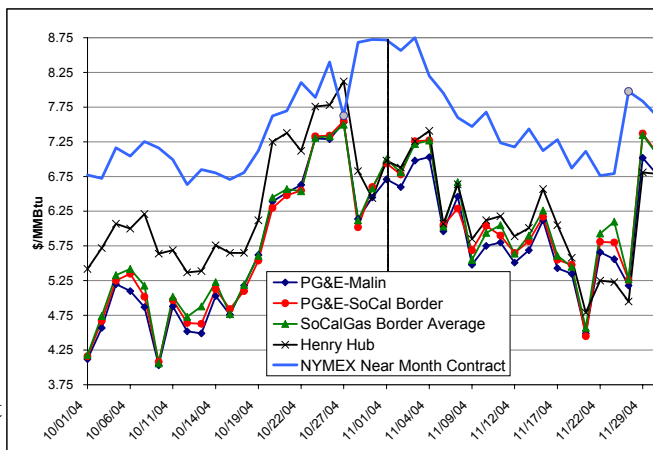


Figure 1: Daily Natural Gas Spot and NYMEX Prices

## California System Operations and Gas Storage Update

November 2004's below normal temperatures in California caused higher than normal natural gas demand in the state, particularly Southern California. Daily natural gas deliveries to customers in the SoCalGas service territory averaged around 3.1 Bcf per day during November, about 14 percent higher than the November average over the past three years. SoCalGas' deliveries peaked on November 30 at over 4.4 Bcf. The flow of supplies into the SoCalGas system were around five percent higher than normal during the month, averaging 2.9 Bcf per day. (please see Figure 2, page 2)

PG&E's natural gas receipts into its system and sendout to its customers averaged 2.7 Bcf per day during November. This is about an eight percent increase in utility receipts, compared to the previous three years, and a seven percent increase in customer deliveries. PG&E's customer deliveries also peaked on the last day of November, reaching around 3.7 Bcf (please see Figure 3, page 2).

Statewide storage inventories decreased by 7.8 Bcf during November 2004, with the majority of withdrawals coming from the SoCalGas system. PG&E made net withdrawals of less than two Bcf during the month. California's two privately owned natural gas storage facilities, Wild Goose and Lodi, managed net injections for the month. As of December 1, 2004, natural gas storage inventories in the state were slightly above 243 Bcf. The five year average for December 1 is 201 Bcf. ■

# Natural Gas Prices

(Continued from page 1)

outages because of a shortage of natural gas to operate the gas-fired power plants called upon to make up for over 2,000 megawatts of electricity lost due to the SONGS outage.

SDG&E averted the potential crisis by obtaining the requisite permits from the FERC, Department of Energy, and the CPUC, allowing it to import natural gas from Mexico. The California ISO also mitigated potential problems by shifting some electricity loads out of the San Diego area and allowing some power plants to shift to fuel oil.

While stress levels were certainly elevated by the events of November 22, the affect on natural gas spot prices at the Southern California border was not as severe. The emergency flow of gas from Mexico was in part responsible, but the other reason is that gas demand dropped off almost as quickly as it had risen. Following the weekend demand spike, California border receipts had risen precipitously; however, with demand dropping rapidly, there was no place for the gas to go, forcing SoCalGas to declare high linepack OFOs from November 25 through November 28. So, in a matter of three

days, SoCalGas went from issuing a Standby Curtailment Notice to four strait days of excess gas on its system.

On November 29, punch number two of the wave of cold weather hit California, causing natural gas demand to rise precipitously in both Northern and Southern California (please see Figures 2 and 3). The increase in California's demand, combined with SoCalGas lifting its high linepack OFO and an increase in prices nationally, caused spot prices to spike to the \$7 per MMBtu level.

Nationally, natural gas prices also moved downward for the majority of November 2004, due mainly to above average temperatures for most of the US outside of the Western States. On November 24, the EIA's weekly storage report indicated a net withdrawal of 49 Bcf for the week ending November 19. This volume was well above expectations, indicating that natural gas demand was higher than previously thought. The following week, the EIA substantially revised the report, but in the mean time, natural gas prices jumped. Due to the Thanksgiving weekend, the affect of the high storage report was not reflected in natural gas spot prices until Monday, November 29. ■

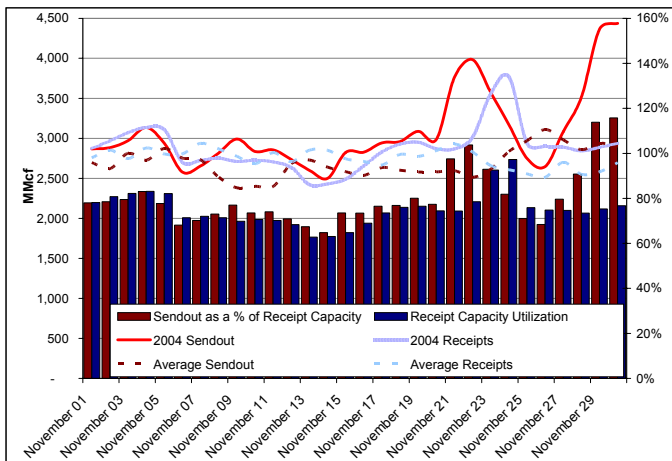


Figure 2. SoCalGas' Natural Gas Receipts and Deliveries, November 2004

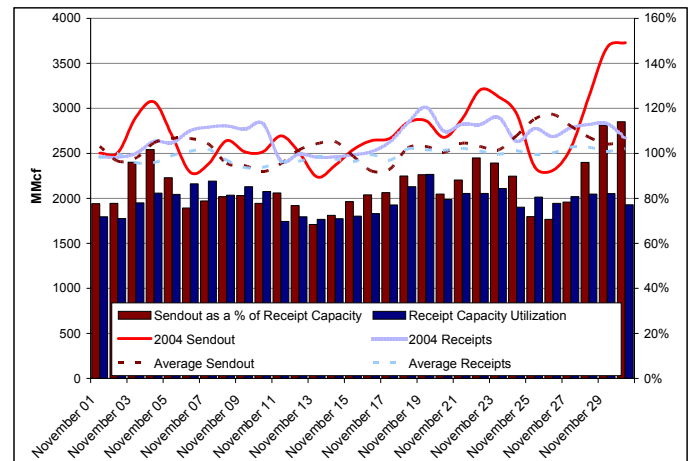


Figure 3. PG&E's Natural Gas Receipts and Deliveries, November 2004

## System Operations

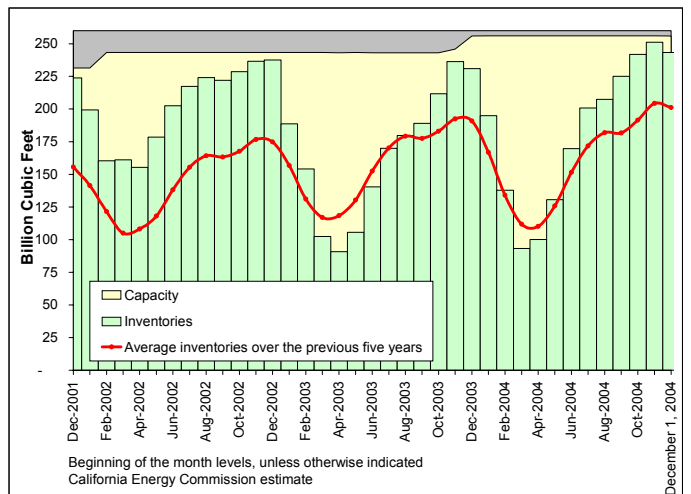


Figure 4. Monthly California Storage Inventories

## U.S. Natural Gas Storage

From November 5, 2004 to December 3, 2004, 82 Bcf of natural gas was withdrawn from storage nationwide. On November 24, 2004, the EIA reported that 49 Bcf was withdrawn from storage during the week ending November 19, 2004. This report proved incorrect, and the following week, the EIA revised its estimate to 17 Bcf withdrawn during the week ending November 19. The EIA attributed the mistake to an erroneous report by one survey participant in the East Consuming Region. ■

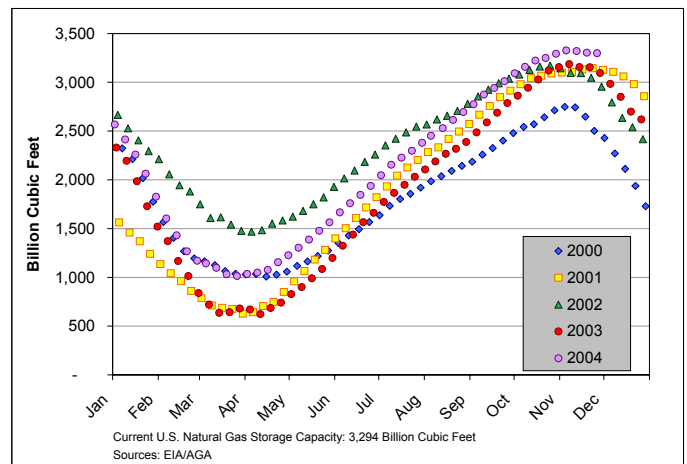


Figure 5. U.S. Natural Gas Storage Levels

## California Gas Drilling and Production

Statewide natural gas production continued the previous month's decline during August 2004, decreasing about 7 MMcf per day. September 2004 brought a modest increase in gas production of 12 MMcf per day, raising California's natural gas output to around 884 MMcf per day. During September, production increased in every district except for offshore in Federal waters and in District 3. Production in those two regions has declined for three consecutive months.

During November 2004, 4 natural gas drilling permits were issued for District 6, bringing the year-to-date total to 122 permits issued, slightly below the November 2000 levels, but still higher than this time of year in 2002 and 2003. District 6 produces the largest volume of non-associated natural gas in California. The district encompasses all of Northern California north of Santa Cruz, Santa Clara, Stanislaus, Tuolumne, and Mono counties, as well as a small portion of Stanislaus County. ■

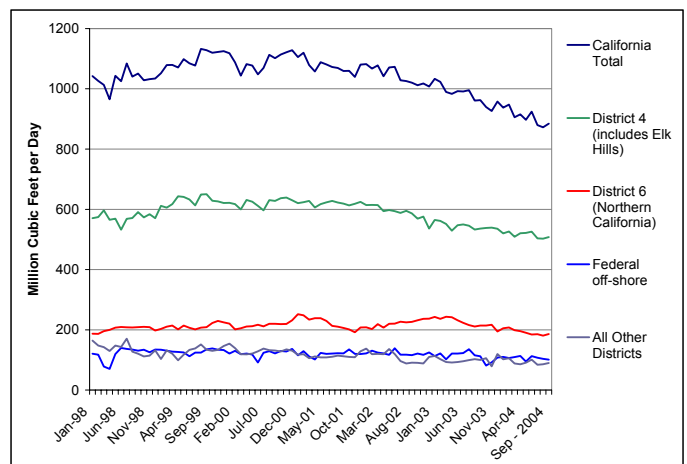


Figure 6. California Natural Gas Production, by District

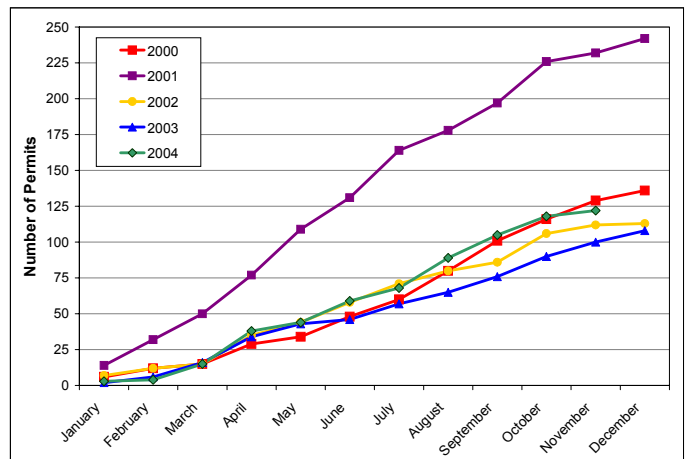


Figure 7. Drilling Permits Issued for District 6 (Northern California)

## Regulatory Summary

## California Public Utilities Commission Cases

Proceeding Number & Title	Description	Status
<b>I0211040</b> <b>Investigation on Natural Gas Prices from December 2000 to May 2001</b>	Investigates gas market activities of California utilities and their impact on gas prices at the California border from March 2000 through May 2001.	Administrative Law Judge (ALJ) Proposed Decision pending.
<b>A.02-12-027/A.02-12-028</b> <b>SoCalGas and SDG&amp;E cost of service and PBR proposal</b>	Establishes revenue requirement for SoCalGas and SDG&E, may establish PBR structure for SoCalGas and SDG&E	Phase 1 (cost of service) decision issued Dec. 2, 2004. ALJ PD in Phase 2 (PBR) to be issued.
<b>I0404024</b> <b>Order Instituting Investigation into the proposal of Sound Energy Solutions to construct and operate a liquefied natural gas terminal at the Port of Long Beach</b>	Orders Sound Energy Solutions (SES) to file an application for a certificate of public convenience and necessity if it intends to pursue construction of the project, and promotes public safety and California's environmental welfare, consistent with state and federal law.	Schedule delayed to allow review of EIR/EIS
<b>A.04-01-034 SoCalGas</b> <b>"Native Gas" Production and Revenue Sharing</b>	SoCalGas requests authority to produce natural gas in vicinity of storage fields, and share revenues from sales with customers	Partial settlement of issues reached with some parties. Case is submitted. ALJ PD to be issued. Additional settlement talks occurring.
<b>A0403021</b> <b>2005 Gas Accord II</b>	PG&E's proposal for cost of service and rates for gas transmission and storage services and backbone level service and rates for 2005, as required by Commission decision D03-12-061 (Gas Accord II).	PG&E reached an all-party settlement in the proceeding that would settle backbone transmission and storage rates and market structure for 2005-2007. PG&E filed the settlement on August 27, 2004. If adopted by the Commission, the settlement would eliminate the need for a 2006 Gas Accord filing. ALJ PD issued which adopts the settlement.
<b>R0401025</b> <b>Policies and Rules to Ensure Reliable, Long-term Supplies of Natural Gas to California</b>	Considers and rules on California natural gas utilities' proposals to ensuring reliable, long-term supplies of natural gas to California, including interstate pipelines, LNG, storage, and in-state production.	Phase 1 Decision adopted on September 2, 2004. Phase 2 scoping memo issued. Joint CPUC/CEC workshop on natural gas quality issues to be held in mid-February. CPUC staff working with utilities on interstate capacity portfolio. TURN & RACE file application for rehearing, RACE files additional application for rehearing of Phase 1 decision Oct. 12th.
<b>PG&amp;E BCAP A.04-07-044</b>	Allocates PG&E's gas distribution revenue requirement to customer classes and sets rate design	ORA testimony due December 10, other parties' testimony due January 11, 2005.
<b>SoCalGas A.04-08-018 to establish regulatory authority over the access for natural gas provided by California gas producers</b>	Establish the terms and conditions under which natural gas produced by California gas producers will be granted access to the SoCalGas operating system	Application filed August 16, 2004. Protests filed September 20, 2004. Status report issued Oct 29th by CIPA, WSPA, SoCalGas.
<b>A.04-09-009 Southwest purchase of Avista's natural gas properties</b>	Requests authority for Southwest Gas to purchase Avista's California natural gas properties and take over service to Avista's customers	Application filed September 2, 2004. One protest filed by ORA on Oct. 12th.